**Executive Summary**

This agenda item seeks Commission approval for a principled approach to FY 2021 state-funded financial aid allocations.

**A Changing Context with Sound Principals:**

* The world has changed since we last discussed the Undergraduate Need-Based Aid Allocation Scenarios at the March meeting. The optimistic appropriation we were projecting is no longer a reasonable assumption. As such, the following scenarios are detailed in the attached workbook
  + 2% increase
  + Flat funding (0%) increase
  + 5% decrease
* The overarching principles upon which these allocation scenarios have been based are the same principles as the original scenarios discussed in March:
  + Long-term formula “stability” with short-term “smoothing” as needed
  + Balanced recognition during periods of rapid growth and/or decline

**Summary of Attached Excel Workbook:**

* The first three tabs show the Undergraduate Need-Based Aid allocations and rate of change by institution in each scenario (+2%, 0%, and -5%)
* The last three tabs show the **total** allocation amounts by institution under each scenario.
* The formula allocates **only** undergraduate need-based aid but the total allocation (as detailed in the last three tabs) includes each of the following forms of financial aid:
  + - Undergraduate Need-Based Aid
    - Graduate Need-Based Aid
    - Work-study
    - Merit-based Aid
    - CTE Aid
* In each undergraduate need-based aid allocation scenario, guardrails are universally applied. In short, the guardrails are principled “formulas” in and of themselves rather than one-off fixes.
* The formula is based on a lagging indicator – Pell credit hour generation by institution for the immediately preceding academic year.
* The formula is intended to incent completion per the CCHE Master Plan, and so it weights seniors higher than juniors, juniors higher than sophomores and sophomores higher than freshman.

**Important Policy Implications:**

In staff’s recommendation, there are a few implications that need to be flagged for the Commission. The staff recommendation is based on the principled criteria outline above but warrant clear understanding by all.

* When General Fund increases are applied to the overall statewide operating budget for higher educations, the same percentage increase must be applied to financial aid as minimum. However, if there is a decrease in higher education operating appropriations, the financial aid appropriation need NOT decrease at the same rate.
* Colorado is a decentralized aid state. This means we provide state financial aid “block grants” to institutions who then package aid individually for students.
* **-5% Scenario Requires Difficult Decisions:** The final tab, labeled “FY 21 -5%”, is of particular importance because it shows staff’s recommendation were the state financial aid program to face a serious cut in funding, which is currently a very real possibility.
  + In the 5% cut scenario, the total financial aid budget would be reduced by $9.9 million.
    - To offset this reduction, staff recommends the elimination of both the merit and CTE allocations. This is a drastic action and only recommended in the -5% scenario
      * Merit aid was eliminated to protect need based aid in all need categories. (5 million)
      * CTE was zeroed out ($450K) since it is a very small program impacting the least number of students.
    - Need-based aid and workstudy were then proportionally decreased by $3.9 mil and $570k, respectively
* **The Formula is a “Balancing Act” – As Pell Numbers Rise and Fall:** 
  + The formula is intended to be a long-term, sustainable approach to allocating the state’s limited financial aid resources. In order to protect the longevity of the formula, guardrails are required to prevent any sudden increases or decreases to Pell populations credit hour production.
  + In the current Covid-19 economic turmoil, staff anticipates that Pell populations will decrease at some four-year institutions and increase at some two-year institutions in the near term. Thus, as the guardrails are helping to smooth allocation swings for many two-year institutions in this upcoming fiscal year 2021, so too will future year’s guardrails likely smooth allocation swings for some four-year institutions.